GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2143
ANSWERED ON:14.03.2008
PREMATURE WITHDRAWAL OF DEPOSITS
Kharventhan Shri Salarapatty Kuppusamy

Will the Minister of FINANCE be pleased to state:

(a) whether the nationalized and private banks are not paying interest on premature withdrawal of deposits;

(b) if so, the details thereof;

(c) whether the RBI has issued guidelines to the banks in this regard; and

(d) if so, the details alongwith the compliance of the banks thereto?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (d): It has been brought to the notice of the Reserve Bank of India (RBI) that some banks have been offering special term deposit products to customers,in addition to regular term deposits, with special feature such as lock-in periods,differential rates of interest, no premature withdrawal during the lock-in period, non-payment of interest in case of premature withdrawal during the lock-in period, etc. RBI has thereafter advised banks vide its circular dated October 25, 2007 that special schemes, with lock-in periods and other such features floated by some banks, are not in conformity with the RBI instructions and banks are advised to discontinue these schemes with immediate effect and report compliance. A copy of circular is available at RBI website (www.rbi.org.in).

In terms of RBI`s extant instructions, a bank, on request from the depositor, should allow withdrawal of a term deposit before completion of the period of the deposit agreed upon at the time of making the deposit. The bank will have freedom to determine its own penal interest rate of premature withdrawal of term deposits. The bank should ensure that the depositors are made aware of the applicable penal rate along with the deposit rate. While prematurely closing a deposit, interest on the deposit for the period that it has remained with the bank will be paid at the rate applicable to the period for which the deposit remained with the bank and not at the contracted rate. No interest is payable, where premature withdrawal of deposits takes place before completion of the minimum period prescribed. However,the bank, at its discretion, may disallow premature withdrawal of large deposits held by entities other than individuals and Hindu Undivided Families. The bank should, however, notify such depositors of its policy of disallowing premature withdrawal in advance, i.e., at the time of accepting such deposits.